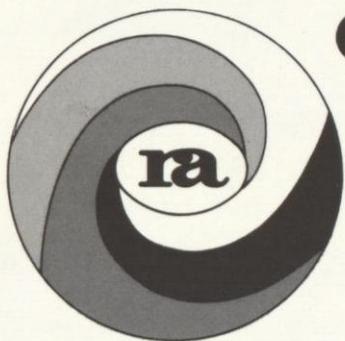


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rapid-american corporation



1973 Annual Report

rapid-american corporation

Executive offices: 711 Fifth Avenue
New York, N. Y. 10022
(212) 752-0100

DIRECTORS

ISIDORE A. BECKER*
HAIM BERNSTEIN
PAUL A. JOHNSTON
BERNARD KOBROVSKY
FRED KORROS
LEONARD C. LANE†
SAMUEL J. LEVY*
MESHULAM RIKLIS*
PINHAS RIKLIS
LORENCE A. SILVERBERG*

†Chairman of the Executive Committee

*Member of the Executive Committee

OFFICERS

MESHULAM RIKLIS
Chairman & Chief Executive
ISIDORE A. BECKER
President
LEONARD C. LANE
Executive Vice President
ANTHONY W. TRAPANI
Vice President and Treasurer
HAIM BERNSTEIN
Vice President
STUART H. AARONS
Assistant Secretary

AUDITORS

Haskins & Sells
Two Broadway
New York, N. Y. 10004

COUNSEL

GENERAL COUNSEL
Fried, Frank, Harris,
Shriver & Jacobson
120 Broadway
New York, N. Y. 10005

SPECIAL COUNSEL—
LITIGATION
Abraham G. Levin, Esq.
598 Madison Avenue
New York, N. Y. 10022

To Our Stockholders:

Our annual report this year is considerably briefer than usual because we will be furnishing to you a detailed proxy statement for the proposed merger of our 62% owned subsidiary, McCrory, with a wholly-owned subsidiary of Rapid-American. That proxy statement will contain considerable additional information relating to each of the units of your company, as well as the terms and other information concerning the proposed merger.

Our annual meeting of stockholders, usually held on the last Wednesday in May, will be delayed and combined with a special meeting to permit us to submit the proposed merger to a vote of the stockholders. The date of the combined meeting will be announced as soon as possible.

The past year has been a highly satisfying one for our company. Highlighting the year were the following:

- Continued operating earnings improvement which exceeded earlier projections.
- Increased cash dividends per share on common stock in the fourth quarter of fiscal 1973 to an annual rate of one dollar per share from our previous rate of fifty cents.
- Our program for corporate simplification reached its final stages with
 - Completion of the merger of Lerner Shops into a subsidiary of McCrory thus achieving 100% ownership by McCrory of Lerner common stock.
 - Announcement of the proposed Rapid-McCrory merger.
- Reduction of outstanding equity securities, most notably with the repurchase of
 - 7,030,730 common stock purchase warrants in March, 1973.
 - 2,423,174 shares of common stock in January, 1974.

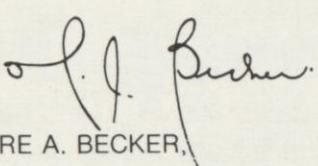
Net income applicable to common stockholders reached \$27.5 million or \$2.64 per share on a fully diluted basis for the year ended January 31, 1974 compared with \$18.2 million or \$1.99 per share for fiscal 1972. Income from continuing operations, before a \$7.4 million charge for the write-off of S. Klein Department Stores, Inc. intangibles, was \$37 million for fiscal 1973, up from \$28 million in the prior year.

The substantial earnings gain for the year was achieved principally from the improved operating contributions of International Playtex, Schenley, and McCrory's Lerner Shops and OTASCO Stores. These gains were offset in part by losses of our BVD group.

McCrory's entire contribution to Rapid-American's fiscal 1973 earnings was substantially eliminated by the disappointing results of S. Klein. The charge of \$7.4 million in fiscal 1973 represents our equity in the write-off by McCrory of the \$11.9 million excess of cost of its investment in S. Klein over its equity therein. The write-off was considered necessary in view of substantially increased operating losses of S. Klein, which were approximately \$9.6 million in fiscal 1973, before allocation of McCrory corporate financing and headquarters' administrative expenses and income taxes, compared to a corresponding loss of \$3.4 million in the preceding year. Management is developing a program the objective of which is to improve S. Klein's operating results. It is not presently possible to estimate what future losses, if any, might arise from S. Klein should such program not be successful.

Another major change in our retailing companies is currently the subject of negotiations. Management of McCrory has announced it is currently negotiating for the transfer of its Variety Store Division, Britts Department Stores, Canadian Division and related corporate office assets to a new subsidiary of Interstate Stores, Inc. for shares of seven percent (7%) Preferred Stock of the subsidiary. The Preferred Stock will have a liquidation preference and redemption price equal

to the carrying value on the books of McCrory of the net assets transferred, which is estimated to be \$120-\$125 million. McCrory will have an option to exchange that Preferred Stock for a like preferred stock of Interstate. The operations to be transferred had total assets of \$245-\$250 million at January 31, 1974 and accounted for approximately \$640 million of McCrory's \$1.4 billion of sales for the fiscal year then ended. Net income of such operations for the year ended January 31, 1974 was approximately \$9 million. At the date of this report agreement has not yet been reached on the terms of the transaction. Accordingly, it is not possible to predict whether the transaction will be consummated or whether or not there will be further changes in its terms.

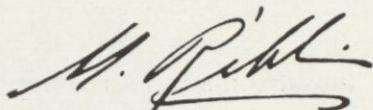

ISIDORE A. BECKER,
President

The proposed merger of McCrory with a wholly-owned subsidiary of Rapid-American is not conditioned on the consummation of the McCrory-Interstate transaction. The terms of the proposed merger, which have been approved in principle by the Boards of Directors of Rapid-American and McCrory, are discussed in Note 15 to the accompanying financial statements.

Upon consummation of the merger your company will own substantially all the outstanding common stock of all its significant subsidiaries.

Our thanks are extended for the patronage and support of our many customers, stockholders, employees, banks and suppliers who have made this past year a success.

Sincerely,



MESHULAM RIKLIS,
Chairman

April 30, 1974

rapid-american corporation and subsidiaries

CONSOLIDATED BALANCE SHEETS

| ASSETS | January 31, 1974 | 1973 |
|--------|---------------------|------|
|--------|---------------------|------|

Current Assets:

| | | |
|--|----------------------|----------------------|
| Cash, including certificates of deposit (\$15,514,000 and \$56,173,000) .. | \$ 67,322,000 | \$ 144,258,000 |
| Trade receivables, less allowances (\$7,288,000 and \$6,281,000)..... | 205,070,000 | 172,637,000 |
| Inventories | 687,659,000 | 644,285,000 |
| Other receivables, prepaid expenses, etc..... | 40,299,000 | 39,029,000 |
| | 1,000,350,000 | 1,000,209,000 |

Investments and Advances:

| | | |
|---|-------------------|-------------------|
| Long John International Limited, at equity..... | 22,182,000 | 21,177,000 |
| McCrary Credit Corporation, at equity | 16,358,000 | 14,369,000 |
| Other investments, etc., substantially at cost..... | 7,412,000 | 7,700,000 |
| | 45,952,000 | 43,246,000 |

| | | |
|---|--------------------|--------------------|
| Property, Plant and Equipment | 578,603,000 | 551,942,000 |
| Less accumulated depreciation and amortization..... | 322,047,000 | 306,718,000 |
| | 256,556,000 | 245,224,000 |

Other Assets:

| | | |
|---|------------------------|------------------------|
| Excess of cost of investments over related equities | 343,948,000 | 294,136,000 |
| Franchises | 49,476,000 | 49,874,000 |
| Deferred charges | 14,626,000 | 14,089,000 |
| Mortgages and sundry | 44,627,000 | 40,401,000 |
| | 452,677,000 | 398,500,000 |
| | \$1,755,535,000 | \$1,687,179,000 |

See Schedules and Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

January 31,
1974 1973

Current Liabilities:

| | | |
|---|--------------------|--------------------|
| Short-term debt | \$ 139,601,000 | \$ 65,832,000 |
| Current maturities of long-term and convertible debt..... | 6,271,000 | 11,457,000 |
| Accounts payable | 125,278,000 | 147,747,000 |
| Accrued expenses and sundry..... | 144,350,000 | 128,802,000 |
| Accrued Federal and foreign income taxes | 44,015,000 | 45,474,000 |
| | 459,515,000 | 399,312,000 |

| | | |
|--|--------------------|--------------------|
| Long-term Debt , less current maturities and unamortized discount | 943,557,000 | 824,830,000 |
|--|--------------------|--------------------|

| | | |
|--|-------------------|-------------------|
| Deferred Federal and Foreign Income Taxes | 21,426,000 | 17,820,000 |
|--|-------------------|-------------------|

| | | |
|--|-------------------|-------------------|
| Other Non-Current Liabilities | 52,740,000 | 58,091,000 |
|--|-------------------|-------------------|

| | | |
|--|-------------------|-------------------|
| Minority Interest in Subsidiaries | 42,587,000 | 86,768,000 |
|--|-------------------|-------------------|

| | | |
|--|-------------------|-------------------|
| Convertible Debt , less current maturities and unamortized discount | 13,374,000 | 13,510,000 |
|--|-------------------|-------------------|

Stockholders' Equity:

| | | |
|---|------------------------|------------------------|
| Preferred and preference stocks (aggregate liquidation preference, (1974) \$29,045,000 and (1973) \$33,447,000)..... | 8,678,000 | 10,306,000 |
| Common stock, \$1 par value, authorized 50,000,000 shares, issued (1974) 6,805,363 shares and (1973) 8,952,777 shares, less treasury stock (1974) 78,684 shares and (1973) 77,684 shares | 6,727,000 | 8,875,000 |
| Additional paid-in capital | 198,870,000 | 282,527,000 |
| Retained earnings..... | 64,385,000 | 50,868,000 |
| Preference stock in treasury at cost, equity in subsidiaries' cost of their treasury stock and subsidiary's cost of investment in Rapid-American Corporation common stock (less par value) and warrants | (56,324,000) | (65,728,000) |
| | 222,336,000 | 286,848,000 |
| | \$1,755,535,000 | \$1,687,179,000 |

See Schedules and Notes to Financial Statements.

rapid-american corporation and subsidiaries

STATEMENTS OF CONSOLIDATED INCOME

| | Year Ended January 31, | |
|---|------------------------|----------------------|
| | 1974 | 1973 |
| Revenues: | | |
| Net sales..... | \$2,696,724,000 | \$2,404,307,000 |
| Other—net | <u>18,975,000</u> | 10,061,000 |
| | <u>2,715,699,000</u> | 2,414,368,000 |
| Costs and Expenses: | | |
| Cost of goods sold..... | 1,919,463,000 | 1,740,347,000 |
| Selling, advertising, general and administrative expenses | 590,811,000 | 491,544,000 |
| Interest and debt expense | 106,577,000 | 77,299,000 |
| Depreciation and amortization | 24,962,000 | 21,718,000 |
| Federal and foreign income taxes | 28,715,000 | 33,800,000 |
| Minority interest | 8,219,000 | 21,544,000 |
| | <u>2,678,747,000</u> | 2,386,252,000 |
| Income from Continuing Operations Before Write-Off of Excess Cost and Extraordinary Items | 36,952,000 | 28,116,000 |
| Write-off of excess cost—no tax effect | <u>7,423,000</u> | — |
| Income From Continuing Operations Before Extraordinary Items | 29,529,000 | 28,116,000 |
| Income from operations discontinued or sold | — | 1,716,000 |
| Income Before Extraordinary Items | 29,529,000 | 29,832,000 |
| Extraordinary items | — | (8,365,000) |
| Net Income | 29,529,000 | 21,467,000 |
| Consolidated preferred dividend requirements..... | 2,012,000 | 3,253,000 |
| Net Income Applicable to Common Stockholders | \$ 27,517,000 | \$ 18,214,000 |
| EARNINGS PER SHARE OF COMMON STOCK: | | |
| Primary: | | |
| Income before extraordinary items: | | |
| From continuing operations..... | \$3.14 | \$3.13 |
| From operations discontinued or sold | — | .20 |
| Total..... | 3.14 | 3.33 |
| Extraordinary items..... | — | (.97) |
| Net Income | \$3.14 | \$2.36 |
| Fully Diluted: | | |
| Income before extraordinary items: | | |
| From continuing operations..... | \$2.64 | \$2.23 |
| From operations discontinued or sold | — | .10 |
| Total..... | 2.64 | 2.33 |
| Extraordinary items..... | — | (.34) |
| Net Income | \$2.64 | \$1.99 |

See Schedules and Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

For the Two Years Ended January 31, 1974

| | <u>Preferred and Preference Stocks</u> | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Treasury Securities*</u> |
|--|--|-------------------------|---------------------------------------|------------------------------|---------------------------------|
| Balance at February 1, 1972 | \$ 795,000 | \$7,191,000 | \$249,283,000 | \$40,763,000 | \$(89,675,000) |
| Net income | | | | 21,467,000 | |
| Dividends: | | | | | |
| On preferred and preference stocks | | | | (1,156,000) | |
| On common stock (\$.125 per share)..... | | | | (1,119,000) | |
| Conversion of preferred stocks ... | (16,000) | 5,000 | 11,000 | | |
| Issuance and assumption of securities pursuant to the merger with Glen Alden | 9,527,000 | 1,624,000 | 31,632,000 | | 19,286,000 |
| Operating results applicable to Glen Alden and subsidiaries for January 1973 | | | | (3,927,000) | |
| Other | | 55,000 | 613,000 | | |
| Equity in certain transactions of subsidiaries | | | 988,000 | (5,160,000) | 4,661,000 |
| Balance at January 31, 1973 | 10,306,000 | 8,875,000 | 282,527,000 | 50,868,000 | (65,728,000) |
| Net income | | | | 29,529,000 | |
| Dividends: | | | | | |
| On preferred and preference stocks | | | | (1,278,000) | |
| On common stock (\$.625 per share)..... | | | | (5,065,000) | |
| Conversion of preferred stocks ... | (433,000) | 266,000 | 167,000 | | |
| Purchase of 7,030,730 redeemable common stock purchase warrants pursuant to cash tender offer and 50,000 warrants in a private transaction | | | | (48,754,000) | (1,011,000) |
| Purchase of 2,423,174 shares of common stock pursuant to cash tender offer | | (2,423,000) | (35,227,000) | | |
| Redemption of class C preference stock, series 6..... | (1,195,000) | | | (1,818,000) | 3,005,000 |
| Other | | 9,000 | 188,000 | | |
| Equity in certain transactions of subsidiaries | | | (31,000) | (6,840,000) | 6,399,000 |
| Balance at January 31, 1974 | \$ 8,678,000 | \$6,727,000 | \$198,870,000 | \$64,385,000 | \$(56,324,000) |

* Consists of equity in subsidiaries' cost of their treasury stock, subsidiary's cost of investment in Rapid common stock (less par value) and warrants and cost of Rapid's preference stock in treasury.

See Schedules and Notes to Financial Statements.

rapid-american corporation and subsidiaries

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

| | Year Ended January 31, 1974 | 1973 |
|--|--------------------------------|-----------------------------|
| Funds Provided: | | |
| Operations: | | |
| Income before extraordinary items | \$ 29,529,000 | \$ 29,832,000 |
| Items not currently requiring (providing) funds: | | |
| Depreciation and amortization (discount, excess cost, etc.) | 36,344,000 | 34,480,000 |
| Deferred income taxes..... | 5,412,000 | 2,860,000 |
| Write-off of excess cost | 7,423,000 | — |
| Minority interest (less dividends of \$3,938,000 and \$8,108,000)..... | 4,281,000 | 14,259,000 |
| Other—net | (707,000) | 1,569,000 |
| Funds provided by operations, exclusive of extraordinary items | <u>82,282,000</u> | <u>83,000,000</u> |
| Funds used by loss from extraordinary items | — | (8,365,000) |
| Issuance of securities in mergers and acquisitions | 73,481,000 | 159,077,000 |
| Issuance and assumption of long-term debt..... | 51,228,000 | 236,238,000 |
| Disposals of property, plant and equipment | 2,740,000 | 5,105,000 |
| Decrease in other investments | 288,000 | 18,107,000 |
| Businesses sold—net (exclusive of working capital of \$62,469,000)..... | — | 26,645,000 |
| | <u>210,019,000</u> | <u>519,807,000</u> |
| Funds Applied: | | |
| Acquisition of minority interest of subsidiaries | 94,387,000 | 161,331,000 |
| Purchase of Rapid common stock and warrants | 87,415,000 | — |
| Additions to property, plant and equipment..... | 38,985,000 | 44,260,000 |
| Acquisition by subsidiaries of their treasury shares and warrants..... | 16,505,000 | 25,094,000 |
| Reduction in long-term and convertible debt | 12,209,000 | 229,339,000 |
| Other—net | 8,994,000 | (6,538,000)* |
| Cash dividends | 6,343,000 | 2,275,000 |
| Decrease in other non-current liabilities and deferred income taxes..... | 5,243,000 | 31,246,000 |
| | <u>270,081,000</u> | <u>487,007,000</u> |
| Increase (Decrease) in Working Capital..... | <u>\$ (60,062,000)</u> | <u>\$ 32,800,000</u> |
| Increase (Decrease) in Working Capital by Components: | | |
| Cash, including certificates of deposit | \$ (76,936,000) | \$ 9,609,000 |
| Marketable securities | — | (16,435,000) |
| Trade receivables, less allowances..... | 32,433,000 | (25,304,000) |
| Inventories | 43,374,000 | 84,543,000 |
| Other receivables, prepaid expenses, etc. | 1,270,000 | (2,838,000) |
| Short-term debt..... | (73,769,000) | 32,891,000 |
| Current maturities of long-term and convertible debt | 5,186,000 | 32,824,000 |
| Accounts payable | 22,469,000 | (55,638,000) |
| Accrued expenses and sundry | (15,548,000) | (12,261,000) |
| Accrued Federal and foreign income taxes | 1,459,000 | (14,591,000) |
| Increase (Decrease) in Working Capital..... | <u>\$ (60,062,000)</u> | <u>\$ 32,800,000</u> |

* Includes \$1,394,000 of net non-current liabilities of Newberry acquired, consisting of assets of \$31,891,000 (principally property—\$24,001,000) less liabilities of \$33,285,000 (principally long-term debt—\$14,695,000 and reserve for store closings—\$12,576,000).

See Schedules and Notes to Financial Statements.

SCHEDULES OF INVENTORIES; PROPERTY, PLANT AND EQUIPMENT; AND PREFERRED AND PREFERENCE STOCKS

| | January 31, 1974 | 1973 |
|--|----------------------|----------------------|
| Inventories: | | |
| At lower of cost or market: | | |
| Principally first-in, first-out and average cost: | | |
| Merchandise at stores, plants and warehouses | \$108,687,000 | \$102,911,000 |
| Work in process | 33,873,000 | 36,036,000 |
| Raw materials and supplies | 64,839,000 | 60,168,000 |
| Retail method—at stores and warehouses..... | 175,709,000 | 166,556,000 |
| At identified cost—merchandise in transit, at warehouses and at restaurants..... | 41,220,000 | 35,967,000 |
| At cost—whiskey, other spirits and wine: | | |
| In bond | 220,424,000 | 208,489,000 |
| Tax paid | 42,907,000 | 34,158,000 |
| | \$687,659,000 | \$644,285,000 |
| Property, Plant and Equipment—at cost: | | |
| Land | \$ 9,887,000 | \$ 9,765,000 |
| Buildings, store properties, warehouses and leased facilities | 117,158,000 | 111,987,000 |
| Furniture, fixtures and leasehold improvements..... | 343,186,000 | 329,580,000 |
| Machinery and equipment | 108,372,000 | 100,610,000 |
| | \$578,603,000 | \$551,942,000 |

Cumulative Convertible Preferred and Preference Stocks

At January 31, 1974:

| | Class B Senior (\$3) Preferred(a) | \$3.15 Preferred(a) | Class C Preference(a)(b) | \$2.25 Junior Preferred (\$2 Par Value) |
|--|--------------------------------------|------------------------|-----------------------------|---|
| Number of shares: | | | | |
| Authorized | 2,172,995 | 1,300,000 | 67,341 | 397,777 |
| Outstanding(c) | 119,085 | 6,042 | 17,214 | 313,081 |
| Aggregate par or stated value | \$ 6,474,000 | \$ 369,000 | \$ 1,209,000 | \$ 626,000 |
| Aggregate liquidation preference(d) | \$12,742,000 | \$ 665,000 | \$ 1,549,000 | \$14,089,000 |
| Conversion rate per share | 3.269 for 1 | 3.557 for 1 | 3.681 for 1 | 3 for 1 |
| Shares of common stock reserved for conversion of stock outstanding..... | 389,288 | 21,491 | 63,364 | 939,243 |

(a) No par value.

(b) Redeemed in February 1974.

(c) At January 31, 1973, the number of shares outstanding of \$3 preferred, \$3.15 preferred, class C and \$2.25 junior preferred were 123,280, 6,663, 17,313 and 396,486, respectively.

(d) The excess (\$20,367,000) over stated or par value imposes no restriction on retained earnings.

See Notes to Financial Statements.

rapid-american corporation and subsidiaries

SCHEDULES OF LONG-TERM AND CONVERTIBLE DEBT

| | January 31, | | | | | |
|--|-------------------------------|------------------------------|------------------------|---|----------------------|----------------------|
| | 1974 | | | 1973 | | |
| | Interest Stated Percent | Rate Effective Percent | Principal Amount | Current Maturities and Unamortized Discount | Long-term Portion | Long-term Portion |
| Long-term Debt: | | | | | | |
| Rapid(a): | | | | | | |
| Notes and mortgages payable, due 1974 to 1996(b)..... | 2-10.3 | 2-10.3 | \$ 288,472,000 | \$ 3,437,000 | \$285,035,000 | \$237,740,000 |
| Subordinated debentures, due 1994 | 7 | 9.3-9.9 | 118,043,000 | 30,705,000 | 87,338,000 | 86,808,000 |
| Sinking fund subordinated debentures, due 1985 and 1988 | 6-7.5 | 8-9.4 | 398,882,000 | 82,291,000 | 316,591,000 | 317,923,000 |
| | | | 805,397,000 | 116,433,000 | 688,964,000 | 642,471,000 |
| McCrory: | | | | | | |
| Notes and mortgages payable, due 1974 to 1981(c)..... | 3.8-9.5 | 3.8-9.5 | 34,403,000 | 2,136,000 | 32,267,000 | 34,151,000 |
| Sinking fund and/or sub- ordinated debentures, due 1974 to 1997..... | 5-10.5 | 5-12.1 | 292,586,000 | 70,260,000 | 222,326,000 | 148,208,000 |
| | | | \$1,132,386,000 | \$188,829,000 | \$943,557,000 | \$824,830,000 |
| Convertible Debt: | | | | | | |
| Rapid(a)-Subordinated debentures, due 1977(d)..... | 5.8 | 5.8 | \$ 9,006,000 | \$ — | \$ 9,006,000 | \$ 9,006,000 |
| McCrory-Subordinated debentures, due 1992 and 1994 | 6.5 | 6.5-6.9 | 4,522,000 | 154,000 | 4,368,000 | 4,504,000 |
| | | | \$ 13,528,000 | \$ 154,000 | \$ 13,374,000 | \$ 13,510,000 |

Long-term and Convertible Debt Maturities at January 31, 1974 before deduction of unamortized discount:

| Years Ending January 31, | | Five Year Periods Ending January 31, |
|-----------------------------|----------------------|---|
| 1975..... | \$ 6,271,000 | 1979 \$ 179,593,000 |
| 1976..... | 46,152,000 | 1984 283,341,000 |
| 1977..... | 50,972,000 | 1989 404,691,000 |
| 1978..... | 36,551,000 | 1994 103,472,000 |
| 1979..... | 39,647,000 | 1999 174,817,000 |
| | \$179,593,000 | \$1,145,914,000 |

- (a) Includes the parent company and its wholly-owned subsidiaries.
 (b) Includes \$200,000,000 and \$150,000,000 of notes payable to banks at January 31, 1974 and 1973, respectively, with interest at 3% above prime rate. Prime rates at January 31, 1974 and 1973 were 9.5% and 6%, respectively.
 (c) Includes \$20,300,000 of 90 day promissory notes to banks, renewable pursuant to a revolving credit agreement at each maturity to June 30, 1975. It is the intention to renew these notes to June 30, 1975.
 (d) Convertible into Rapid common stock at \$21.25 per share, subject to anti-dilution.

See Notes to Financial Statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include all subsidiaries except McCrory Credit Corporation and Long John International Limited which are carried at equity and certain other subsidiaries whose assets and operations are not significant.

Prior to the merger in November 1972 of Rapid and its consolidated subsidiary, Glen Alden Corporation, Rapid's consolidated financial statements included financial data of Glen Alden and its consolidated subsidiaries (including Schenley Industries, Inc., International Latex Corporation and The B.V.D. Company, Inc.) on a calendar year basis. As a result of the merger, Glen Alden and its subsidiaries, including certain subsidiaries which became direct subsidiaries of Rapid (except for certain foreign subsidiaries which remained on a year ending December 31), adopted Rapid's fiscal year ending January 31, effective for the year ended January 31, 1973. Accordingly, the accompanying consolidated balance sheets include data of Glen Alden and such subsidiaries as of January 31, 1974 and 1973; the statements of consolidated income include their results of operations for the years ended January 31, 1974 and December 31, 1972; and the statements of changes in consolidated financial position include their data for the year ended January 31, 1974 and for the period from January 1, 1972 to January 31, 1973. The loss from operations applicable to Glen Alden and such subsidiaries for the month of January 1973 has been charged directly to retained earnings.

The balance sheet accounts of foreign subsidiaries are translated at the rate of exchange in effect at the close of the period except for property, plant and equipment, goodwill, inventories of Schenley's Canadian subsidiaries held for sale in the United States and other non-Canadian markets, certain investments and stockholders' equity accounts which are translated at the rate of exchange in effect when acquired, produced or developed. Revenue and expense accounts are translated at a weighted average of exchange rates in effect during the year, except for depre-

ciation and amortization of property, plant and equipment and the sale and related costs of Schenley's above-mentioned inventories which are translated at the rates of exchange in effect when the respective assets were acquired or produced. Unrealized foreign currency exchange losses, which have been insignificant, are charged to income currently. Net unrealized gains from foreign currency translation are credited to liability accounts, except that these gains are credited to income currently to the extent of losses previously charged to income. The liability accounts at January 31, 1974 include deferred exchange gains amounting to \$613,000.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Inventories

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold for the years ended January 31, 1974 and 1973 include approximately \$355,696,000 and \$345,321,000, respectively, of Federal excise taxes, import duties and state liquor taxes.

Property, Plant and Equipment

Depreciation and amortization is generally provided for on the straight-line method over the estimated service lives of the properties.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970 (exclusive of excess cost applicable to investment in S. Klein Department Stores, Inc.—see Note 3), amounting to \$154,876,000 at January 31, 1974, has been

rapid-american corporation and subsidiaries

recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs are not amortized so long as there is no diminution in value of the related investments. Franchises, which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to \$189,072,000 (after accumulated amortization of \$4,831,000) at January 31, 1974, and the portion of franchises amounting to \$15,422,000 (after accumulated amortization of \$524,000) at such date acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on a straight-line basis over forty years.

Income Taxes

Investment tax credits for the years ended January 31, 1974 and 1973 in the amount of \$2,684,000 and \$1,784,000, respectively, were applied as a reduction of the provision for Federal income taxes.

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately \$106,000,000 at January 31, 1974. No provision has been made for taxes that would be payable upon distribution, because these earnings have been indefinitely reinvested.

2. McCRORY CREDIT CORPORATION

Rapid and certain of its affiliates assign certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept reassignment of any accounts in default, as defined. The 10% equity of Rapid in assigned accounts (the uncollected balances of which amounted to \$88,050,000 and \$78,455,000 at January 31, 1974 and 1973, respectively) is included in trade

receivables in the consolidated balance sheets. Collections in January 1974 and 1973 (payable to McCrory Credit in February) from assigned customers' accounts (net of 10% equity) amounting to \$24,618,000 and \$22,237,000, respectively, have been deducted from trade receivables in the consolidated balance sheets. A condensed consolidated balance sheet of McCrory Credit at January 31, 1974 is summarized below:

| | | |
|--|--------------|--------------|
| Accounts receivable, less un- earned discount | \$84,920,000 | |
| Cash | 13,388,000 | \$98,308,000 |
| Notes payable to banks | 81,500,000 | |
| Other liabilities, less other as- sets | 450,000 | 81,950,000 |
| | | |
| Rapid's carrying value (in- cluding \$10,600,000 subordinated notes payable to Rapid and affiliates) | | \$16,358,000 |

Net income of McCrory Credit for the years ended January 31, 1974 and 1973 was \$389,000 and \$511,000, respectively. Rapid's equity therein is included in consolidated net income.

McCrory Credit has no formal agreements which restrict the use of its cash balances. However, it is expected, under various informal arrangements, to maintain compensating balances under certain of its lines of credit. Such compensating balances in the aggregate comprise a principal portion of cash as reflected in the above condensed consolidated balance sheet.

3. INVESTMENT IN S. KLEIN DEPARTMENT STORES, INC.

During the year ended January 31, 1974, S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory, incurred an operating loss of approximately \$9,600,000 before allocation of corporate financing and headquarters' administrative expenses and income taxes, compared to a corresponding operating loss of approximately \$3,400,000 for the year ended January 31, 1973. As a result, management of McCrory concluded that the excess (\$11,907,000) of the cost of its investment in S. Klein at date of acquisition over the related equity no longer had value and wrote off such excess cost as of January 31, 1974. Rapid's equity in such write-off was \$7,423,000, after minority interest therein of \$4,484,000.

At January 31, 1974, McCrory's investment in, and advances to, S. Klein was approximately

\$31,000,000 and the aggregate lease commitments (under leases expiring at various dates to 2002) of S. Klein, substantially all of which are guaranteed by McCrory, were approximately \$157,000,000, with minimum annual rentals of approximately \$8,700,000. McCrory is guarantor of substantially all of S. Klein's trade payables, which amounted to approximately \$10,300,000 at January 31, 1974. Management intends to continue to operate S. Klein and is developing a program the objective of which is to improve S. Klein's operating results. It is not presently possible to estimate what future losses, if any, might arise from S. Klein should such program not be successful, and no provision for such losses has been made in the accompanying consolidated financial statements.

Accounting Principles Board Opinion No. 30, adopted in September 1973, changed the criteria for items to be included in determining income before extraordinary items. Accordingly, the write-off of the excess cost during the year ended January 31, 1974 was included in determining income before extraordinary items in the accompanying statements of consolidated income. During the year ended January 31, 1973, Rapid presented a write-off of excess cost, as well as certain other transactions, as extraordinary items in conformity with accounting principles then generally accepted. Had Opinion No. 30 been in effect for both years, net income would not have changed from that reported, but income before extraordinary items for the year ended January 31, 1973 would have been \$14,160,000 (\$1.51 primary earnings per share and \$1.39 fully diluted earnings per share) determined as follows:

| | |
|---|---------------------|
| Income before extraordinary items | \$29,832,000 |
| Loss on the sale of Glen Alden's interest in Panacon..... | (4,468,000) |
| Loss on the sale of Glen Alden's textile division..... | (6,166,000) |
| Provision for loss on investments and discontinuance and disposal of certain operating units and properties | (5,038,000) |
| | <u>\$14,160,000</u> |

4. INVESTMENTS IN OTHER CONSOLIDATED SUBSIDIARIES

McCrory Corporation—Rapid owned at January 31, 1974 and 1973, 3,151,339 shares (62.3%

and 62.6%, respectively) of McCrory common stock outstanding. In January 1973 Rapid, through a cash tender offer at \$32 per share, acquired 1,000,000 shares of McCrory common stock. In May 1973 McCrory, through a cash tender offer at \$10 per warrant, acquired 1,600,485 of its common stock purchase warrants. These transactions gave rise to \$17,474,000 and \$10,307,000, respectively, of excess of cost of investment over related equity.

Lerner Stores Corporation—McCrory owned at January 31, 1973, 2,558,815 shares (60.0%) of Lerner common stock outstanding. On September 18, 1973 (accounted for as of August 1, 1973), a wholly-owned subsidiary of McCrory was merged into Lerner. In connection with the merger, which was accounted for as a purchase transaction in which McCrory was the acquiring corporation: (a) \$113,668,000 principal amount (discounted value \$72,534,000) of McCrory 7 3/4% sinking fund subordinated debentures due in 1995 and \$18,194,000 in cash were exchanged for all of the outstanding shares of Lerner common stock and substantially all of the outstanding Lerner common stock purchase warrants and (b) the Lerner common treasury stock was cancelled. In addition \$1,484,000 principal amount (discounted value \$947,000) of such debentures were issued upon exercise of Lerner warrants. The aggregate cost of such investment, amounting to \$92,416,000, exceeded the equity in underlying net assets acquired from Lerner's minority interest by \$53,747,000.

J. J. Newberry Co.—In a cash tender offer completed in February 1972, Rapid acquired 49% of Newberry common stock at an aggregate cost of \$22,060,000 and, for the seven months ended August 31, 1972, carried such investment at equity. On September 1, 1972, McCrory, in a transaction accounted for as a purchase, acquired all of Newberry's common stock, including Rapid's interest, for \$63,716,000 principal amount (discounted value \$49,485,000) of McCrory 7 5/8% sinking fund subordinated debentures due in 1997 (including \$28,500,000 received by Rapid and sold at no gain or loss) and 76,792 shares of McCrory common stock. The excess (\$24,773,000) of the net assets acquired in the transaction over the aggregate cost (\$51,175,000) was attributed to property accounts and is being amortized over their ten year

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remaining average useful life (as a reduction of depreciation).

Net sales of Newberry for the years ended January 31, 1974 and 1973 in the amount of \$370,648,000 and \$200,600,000, respectively, and Rapid's equity in Newberry's net income for the years ended January 31, 1974 and 1973, in the amount of \$511,000 and \$913,000, respectively, after giving effect to interest expense (net of taxes) and amortization of excess credit relating to the Newberry acquisition, have been included in the accompanying statements of consolidated income.

Glen Alden Corporation—At February 1, 1972 Rapid owned 13,061,716 shares (74.6%) of Glen Alden common stock outstanding. On November 3, 1972, Rapid was merged into Glen Alden and the name of the surviving corporation was changed to "Rapid-American Corporation". In connection with the merger, which was accounted for as a purchase transaction in which Rapid was the acquiring corporation: (a) 1,624,086 shares of Rapid common stock and 4,640,248 Rapid redeemable common stock purchase warrants were issued; (b) \$66,277,000 principal amount (discounted value \$47,057,000) of Rapid 7% subordinated debentures (1972 issue) due in 1994 and \$17,028,000 in cash were exchanged for substantially all of the shares of Glen Alden preferred stocks (other than class C) and (c) the remaining Glen Alden preferred and preference stocks became preferred and preference stocks of Rapid (including 50,028 shares of class C stock in treasury at a cost of \$4,503,000). In addition, Rapid's equity (\$23,789,000) in changes in Glen Alden's treasury stock was eliminated, and the Glen Alden common stock owned by Rapid prior to the merger and the 18,670 shares of Rapid common treasury stock were cancelled. The aggregate cost of such investment, amounting to \$128,038,000, exceeded the equity in underlying net assets acquired from Glen Alden's minority interest by \$90,297,000.

Schenley Industries, Inc.—Rapid owned at January 31, 1973 all of the outstanding Schenley common stock. In February 1973 Schenley redeemed its cumulative preference stock, its only remaining outstanding equity security, for \$1,971,000 in cash. This transaction gave rise to

\$1,902,000 of excess of cost of investment over related equity.

5. SHORT-TERM DEBT

Short-term debt outstanding at January 31, 1974 and 1973 consisted of notes payable to various banks (\$125,451,000 and \$45,732,000) and commercial paper (\$14,150,000 and \$20,100,000), respectively. The notes payable and commercial paper are generally payable ninety days after date of issuance, and as of January 31, 1974 the average interest rate was 9.8%. The maximum amount of short-term debt outstanding at any month end during the year ended January 31, 1974 was \$275,000,000. The average amount of short-term debt outstanding during the year was approximately \$195,000,000, and the weighted average interest rate on such debt was approximately 8.8%. As of January 31, 1974 unused lines of credit available for short-term prime rate borrowings aggregated approximately \$225,000,000.

Under informal agreements it is expected that Rapid and its subsidiaries maintain cash balances up to 10% of the unused portion of the lines of credit and up to 20% of the loans outstanding under these lines. These balances are subject to withdrawal at any time.

6. LONG-TERM AND CONVERTIBLE DEBT

In connection with certain long-term bank borrowings, under informal agreements it is expected that Rapid and its subsidiaries maintain cash balances ranging up to 20% of the outstanding loans. These balances are subject to withdrawal at any time.

Agreements covering certain indebtedness of Rapid and its subsidiaries contain covenants concerning working capital position, additional indebtedness, restrictions on transactions in capital stock, limitations on payment of cash dividends on capital stock and certain other restrictions. At January 31, 1974 approximately \$11,900,000 was available for the payment of cash dividends on, and for the purchase, redemption or retire-

ment of any shares of any class of capital stock, except the class C stock.

7. CAPITAL STOCK AND WARRANTS

Warrants entitling their holders to purchase shares of Rapid's common stock were outstanding as follows:

| Expiration Date | Exercise Price | Number of Warrants January 31, | |
|-----------------|----------------|-----------------------------------|-------------------|
| | | 1974 | 1973 |
| May 1976 | \$ 8.50 | 100,000 | 100,000 |
| June 1976 | 5.00 | — | 50,000 |
| May 1994* | 35.00 | 3,953,333 | 10,956,338 |
| | | <u>4,053,333</u> | <u>11,106,338</u> |

* Redeemable at \$20.

During the year ended January 31, 1974, Rapid: (a) through cash tender offers acquired (i) 7,030,730 of its redeemable common stock purchase warrants (expiring in 1994) for \$6.50 per warrant, and (ii) 2,423,174 shares of its common stock for \$15 per share; (b) redeemed 50,000 of its warrants (expiring in June 1976) at \$10 per warrant; and (c) issued 27,725 redeemable warrants pursuant to exercise of options. During the year ended January 31, 1973, 4,640,248 redeemable warrants were issued pursuant to the Glen Alden merger, 50,000 warrants (expiring in June 1976) were exercised and 750 redeemable warrants were issued upon exercise of options. At January 31, 1974 and 1973, McCrory owned 155,368 redeemable warrants (not included above) and 77,684 shares of Rapid's common stock, which have been included with treasury stock in the accompanying consolidated financial statements.

On May 30, 1973, Rapid's stockholders approved the grant of two non-qualified stock options for the purchase of an aggregate of 300,000 shares of common stock at a purchase price of \$25.00 per share to two officers.

On May 30, 1973, Rapid's stockholders approved a qualified stock option plan which provides for the grant of options to purchase 500,000 shares of common stock at not less than 100% of fair market value on the dates of grant. At January 31, 1974, no options had been granted under such plan.

Rapid's 1964 qualified stock option plan authorizes the grant of options to purchase 200,000 shares of common stock at not less than 100% of fair market value on the dates of grant. No options were outstanding at January 31, 1974 and options to purchase 16,000 shares (at an option price of \$24.50 per share) were outstanding at January 31, 1973. During the years ended January 31, 1974 and 1973, options to purchase the aforementioned 16,000 shares and 5,100 shares (at an option price range of \$17.50 to \$24.50 per share), respectively, were cancelled. At January 31, 1974, 71,160 shares were available for the grant of options.

The former Glen Alden 1965 option plan, which was assumed by Rapid upon the effectiveness of the merger, authorized the grant of options to purchase common stock and warrants. Option data were as follows:

| | Number of | |
|---------------------------|-----------------|------------------------|
| | Shares | Redeemable Warrants |
| Outstanding, | | |
| November 3, 1972 | 238,646 | 681,850 |
| Exercised..... | (262) | (750) |
| Cancelled..... | <u>(4,894)</u> | <u>(13,938)</u> |
| Outstanding, | | |
| January 31, 1973 | 233,490 | 667,162 |
| Exercised..... | (9,694) | (27,725) |
| Cancelled..... | <u>(66,096)</u> | <u>(188,850)</u> |
| Outstanding, | | |
| January 31, 1974 | <u>157,700</u> | <u>450,587</u> |
| At January 31, 1974: | | |
| Exercisable | 130,306 | 372,305 |
| Available for grant | 237,817 | 679,483 |

Option prices range from \$5.125 to \$17.00 for the period ended January 31, 1973 and \$5.125 to \$13.75 for the year ended January 31, 1974.

Rapid does not intend to grant additional options under the 1964 or 1965 plans.

During the year ended January 31, 1974, 4,195 shares of \$3 preferred stock, 621 shares of \$3.15 preferred stock and 83,405 shares of \$2.25 junior preferred stock were converted into 266,066 shares of Rapid common stock. During the year ended January 31, 1973, 248 shares of \$3 preferred stock and 1,308 shares of \$2.25 junior preferred stock were converted into 4,679 shares of Rapid common stock.

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At January 31, 1974 there were 138,660 shares of McCrory common stock reserved for conversion of McCrory preferred and preference stock and debentures, 427,690 shares reserved for issuance under stock option and bonus plans and 669,726 shares reserved for exercise of common stock purchase warrants outstanding.

8. INCOME TAXES

Federal and foreign income taxes related to continuing operations for the years ended January 31, 1974 and 1973 are comprised of Federal income taxes of \$17,576,000 and \$24,940,000 (including deferred taxes of \$10,276,000 and \$1,194,000) and foreign income taxes of \$11,139,000 and \$8,860,000 (including deferred taxes of \$1,736,000 and \$1,666,000), respectively.

Deferred income taxes result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences for the year ended January 31, 1974 and the tax effect of each were as follows:

| | |
|--|----------------------------|
| Reinstatement of deferred taxes upon realization of net operating loss carry-overs | \$ 8,377,000 |
| Recognition of foreign tax credit and investment credit carry-overs | (7,209,000) |
| Excess of tax over book depreciation | 4,269,000 |
| Amortization of debt discount | 2,605,000 |
| Deferred systems development costs | 1,440,000 |
| Reduction in reserve for store closing programs..... | 1,340,000 |
| Other | 1,190,000 |
| | <u><u>\$12,012,000</u></u> |

Total income tax expense for the year ended January 31, 1974 amounted to \$28,715,000 (an effective rate of 46.3%), a total less than the amount of \$29,750,000 computed by applying the statutory U. S. Federal income tax rate of 48% to income before Federal and foreign income

taxes and minority interest. The reasons for the variance from the statutory rate are as follows:

| | % of Pre-tax Income |
|--|---------------------------|
| Statutory rate | 48.0% |
| Increase (decrease) in income tax rate resulting from: | |
| Write-off of excess cost..... | 9.2 |
| Investment tax credit..... | (4.3) |
| Tax exempt income from Puerto Rican sources | (3.8) |
| Amortization of excess of cost of investments over related equities..... | 3.5 |
| Foreign income subject to foreign income taxes but not expected to be subject to U. S. income tax in the foreseeable future..... | (2.5) |
| Amortization of excess of equity over cost of investment | (1.9) |
| Other | (1.9) |
| Actual income tax rate | <u><u>46.3%</u></u> |

9. PENSION AND RETIREMENT PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension and retirement plans covering eligible employees. The provision for pension costs under the plans was \$5,592,000 and \$4,601,000 for the years ended January 31, 1974 and 1973, respectively. It is the general policy to fund pension cost accrued as required. As of January 31, 1974, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately \$2,000,000. Unfunded prior service cost amounted to approximately \$12,000,000 at January 31, 1974, substantially all of which is being funded over various periods not exceeding thirty years.

10. OPERATIONS DISCONTINUED OR SOLD

During the year ended January 31, 1973, Glen Alden sold its 89% interest in the equity securities of Panacon Corporation for \$62,000,000 in cash and its textile division for \$18,000,000 in cash and notes, and BVD sold its retail division for \$16,000,000 in cash and notes. Accordingly, the net sales and related expenses applicable to such operations prior to their sale or discontinuance have been shown net in the statements of consolidated income. Net sales relating to operations discontinued or sold for the year ended January 31, 1973 were \$113,215,000.

11. EXTRAORDINARY ITEMS

Extraordinary items for the year ended January 31, 1973 consisted of the following:

| | |
|--|------------------------------|
| Loss on the sale of Glen Alden's interest in Panacon, after Federal income tax provision of \$6,391,000..... | \$ (4,468,000) |
| Loss on the sale of Glen Alden's textile division, net of Federal income tax benefit of \$3,467,000..... | (6,166,000) |
| Provision for loss on investments and discontinuance and disposal of certain operating units and properties—net, after income tax benefit of \$2,039,000 | (5,038,000) |
| Credit arising from utilization of net operating loss carryovers | 7,307,000 |
| | <u><u>\$ (8,365,000)</u></u> |

12. EARNINGS PER SHARE OF COMMON STOCK

Primary earnings per share is based on the weighted average number of common shares outstanding during each year and gives effect to the assumed exercise and conversion of common stock equivalents. In addition, when appropriate, it has been assumed that a portion of the proceeds from such assumed exercises, when dilutive, were applied to the purchase of common stock and the balance applied to reduce outstanding debt. Rapid's equity in preferred dividend requirements of its consolidated subsid-

iaries (\$734,000 and \$2,284,000 for the years ended January 31, 1974 and 1973, respectively) has been deducted in determining net income applicable to common stockholders and primary earnings per share amounts.

Fully diluted earnings per share gives effect to the assumed conversion of dilutive convertible securities into common stock and to the assumed exercise of dilutive stock options and warrants with a portion of the proceeds therefrom applied to the purchase of common stock and the balance applied to reduce outstanding debt.

13. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the leases generally range from 10 to 40 years and provide for the payment of additional rentals based upon percentages of sales, plus in certain instances, real estate taxes, insurance and maintenance costs. Many of the leases are noncapitalized financing leases, as defined by the Securities and Exchange Commission.

Rent expense, net of minor sublease income, is as follows:

| | <u>Year Ended January 31,</u> | |
|--------------------------------------|-------------------------------|-----------------------|
| | <u>1974</u> | <u>1973(a)</u> |
| (In millions) | | |
| Basic rents: | | |
| Noncapitalized financing leases..... | \$ 37.9 | \$ 30.9 |
| Other..... | 45.9 | 33.7 |
| Contingent rents..... | 9.8 | 8.4 |
| | <u><u>\$ 93.6</u></u> | <u><u>\$ 73.0</u></u> |

(a) Includes Newberry from September 1, 1972.

The minimum rental commitments, net of minor sublease income, in effect at January 31, 1974 are as follows:

| <u>Years Ending January 31,</u> | <u>Financing Leases</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|------------------------|
| (In millions) | | |
| 1975..... | \$ 37.9 | \$ 75.4 |
| 1976..... | 38.1 | 72.7 |
| 1977..... | 37.0 | 69.5 |
| 1978..... | 36.0 | 65.5 |
| 1979..... | 35.3 | 62.4 |
| 1975-1979..... | 184.3 | 345.5 |
| 1980-1984..... | 161.1 | 268.7 |
| 1985-1989..... | 116.3 | 184.7 |
| 1990-1994..... | 65.5 | 108.4 |
| Thereafter..... | 59.5 | 71.2 |
| | <u><u>\$ 586.7</u></u> | <u><u>\$ 978.5</u></u> |

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Total minimum commitments, present values of noncapitalized financing leases, and the weighted average and range of interest rates used in computing present values of financing leases are as follows:

| | Real Property | Equipment and Fixtures | Total |
|--|------------------|------------------------------|-----------|
| (In millions) | | | |
| At January 31, 1974: | | | |
| Total minimum rental commitments..... | \$935.7 | \$42.8 | \$978.5 |
| Total noncapitalized financing leases..... | \$561.3 | \$25.4 | \$586.7 |
| Present values of total noncapitalized financing leases..... | \$306.9 | \$20.6 | \$327.5 |
| At January 31, 1973: | | | |
| Total minimum rental commitments..... | \$983.4 | \$51.7 | \$1,035.1 |
| Total noncapitalized financing leases..... | \$595.1 | \$29.5 | \$624.6 |
| Present values of total noncapitalized financing leases..... | \$319.3 | \$22.9 | \$342.2 |
| (Percent) | | | |
| Interest rates used in computing present values: | | | |
| Range..... | 3.5-10.5 | 5.0-9.5 | 3.5-10.5 |
| Weighted Average | 6.3 | 6.0 | 6.3 |

If all leases identified as noncapitalized financing leases had been capitalized, the effect on net income would not have been significant.

14. OTHER COMMITMENTS AND CONTINGENCIES

There are a number of lawsuits and claims, including antitrust actions, pending against Rapid and its subsidiaries as well as long-term leases on locations at which operations have been discontinued. Management, based upon opinions of counsel, is of the opinion that the ultimate liability, if any, will not materially affect the consolidated financial position of Rapid and its subsidiaries.

At January 31, 1974 Rapid was guarantor of notes and other obligations or remained contingently liable under certain long-term leases on properties sold in the approximate amount of \$143,000,000.

15. OTHER SIGNIFICANT EVENTS

McCrory is engaged in negotiations for the transfer of its Variety Store Division, Britts Department Stores, and Canadian Division, together with related corporate office assets, to a newly organized subsidiary of Interstate Stores, Inc. in exchange for a new issue of 7% preferred stock of the subsidiary. The preferred stock will have a liquidation preference and redemption price equal to the recorded value of the net assets to be transferred. McCrory is to have an option to exchange the subsidiary's preferred stock for a like preferred stock of Interstate. During the period after execution of an agreement and prior to final consummation of the transaction, McCrory is to guarantee a portion of a \$30,000,000 interim bank credit to Interstate's toy and department store operations. At January 31, 1974 the total assets proposed to be transferred were between \$245,000,000 and \$250,000,000 and the net assets proposed to be transferred were between \$120,000,000 and \$125,000,000. Sales and net income of the operations to be transferred for the year ended January 31, 1974 were approximately \$640,000,000 and \$9,000,000, respectively. At the present time, it is uncertain as to whether this transaction will be consummated or whether or not there will be further changes in the terms of this transaction.

On January 29, 1974 Rapid and McCrory announced an agreement in principle for a merger whereby McCrory is to become a wholly-owned subsidiary of Rapid. McCrory common stockholders (other than Rapid) are to receive one share of a new Rapid \$1.50 convertible preferred stock ("New Preferred Stock") for each share of McCrory common stock held and, in addition, will have the option to tender shares of New Preferred Stock for \$18 per share in cash for a short period after the merger. The McCrory 3½% cumulative convertible preferred stock and the 5½% cumulative preference B stock series are to be redeemed. The McCrory \$6 cumulative convertible preference stock will continue to be an outstanding security of McCrory but will be convertible into shares of New Preferred Stock rather than into shares of McCrory common stock. The McCrory 6½% convertible subordinated debentures due in 1992 will become convertible into

shares of New Preferred Stock rather than into shares of McCrory common stock. Each McCrory common stock purchase warrant expiring in March 1976 and March 1981 will be exercisable for one share of New Preferred Stock rather than into shares of McCrory common stock and may be tendered for \$6 in cash per warrant during a short period after the merger. The 4½% cumulative preference B stock of McCrory will continue as an outstanding security of McCrory, and existing McCrory debentures will continue to be debt of McCrory. The merger is subject to a number of conditions including the execution of a definitive agreement between the parties and obtaining requisite approval from stockholders of

Rapid and McCrory.

Based on the capitalization of McCrory at January 31, 1974, the merger will involve (i) the issuance by Rapid of 1,904,089 shares of New Preferred Stock plus the reservation of 802,691 additional shares of New Preferred Stock for exercise or conversion of McCrory warrants and convertible securities (assuming no common stockholders or warrantholders tender their securities for cash), or (ii) the payment of approximately \$37,600,000 plus the reservation of 255,789 shares of New Preferred Stock for exercises and conversions of McCrory securities (assuming all common stockholders and eligible warrantholders tender their securities for cash).

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK, NEW YORK 10004

ACCOUNTANTS' OPINION

To The Board of Directors and Stockholders
of Rapid-American Corporation:

We have examined the consolidated financial statements of Rapid-American Corporation and subsidiaries for the years ended January 31, 1974 and 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose contribution to consolidated revenues (including revenues of operations discontinued or sold) was approximately 19% and 18%, respectively, for the years ended January 31, 1974 and 1973. These statements were examined by other accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports of the other accountants.

In our opinion, subject to the effect of the resolution of the S. Klein Department Stores, Inc. matter described in the first two paragraphs of Note 3 and based upon our examination and the reports of other accountants, the accompanying consolidated balance sheets and statements of consolidated income, consolidated stockholders' equity and of changes in consolidated financial position present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied (except for the change, with which we concur, required by Accounting Principles Board Opinion No. 30 in the method of determining income before extraordinary items as described in the last paragraph of Note 3) on a consistent basis.

Haskins + Sells

April 24, 1974

rapid-american corporation

PRINCIPAL PUBLICLY TRADED SECURITIES (Symbol: **RPD**)

| Security | Transfer Agent(s) or Trustee* | Stock Exchange Listing(s) |
|--|---|-----------------------------------|
| Common Stock | Chemical Bank and The Fidelity Bank (Philadelphia, Pa.) | New York Cincinnati Pacific |
| Redeemable Warrants, expiring 1994 | Chemical Bank | American Pacific |
| \$2.25 Cumulative Convertible Junior Preferred Stock | Chemical Bank | New York |
| Class B Senior Cumulative Convertible (\$3) Preferred Stock | Marine Midland Bank— New York New York | |
| 5¾% Convertible Subordinated Debentures, due 1977 | Sterling National Bank & Trust Company of New York | American |
| 7½% Sinking Fund Subordinated Debentures, due 1985 | Franklin National Bank | New York |
| 6% Sinking Fund Subordinated Debentures, due 1988 | Marine Midland Bank— New York New York | |
| 7% Subordinated Debentures due 1994 (1969 & 1972 issues) | American Bank & Trust Company | New York |

* All located in New York City except where otherwise indicated.



rapid-american corporation

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